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Domestic Systematically Important Banks

March 1, 2013

On March 26, 2013, the Office of the Superintendent of Financial Institutions ("**OSFI**"), the Canadian bank regulator, issued an Advisory in which it identified the banks considered to be systematically important for Canada in accordance with the framework set out by the Basel Committee on Banking Supervision. These banks are the Bank of Montreal, the Bank of Nova Scotia, the Canadian Imperial Bank of Commerce, the National Bank of Canada, the Royal Bank of Canada and the Toronto-Dominion Bank.

In October 2012, the Basel Committee published a document setting out certain principles for Member States of the Bank for International Settlements to help them address the impact that the distress or failure of certain banks can have on domestic financial systems and national economies.

Following this designation as domestic systematically important banks, the above-mentioned banks will need to comply with stricter financial standards in order to expand their capacity to absorb unexpected losses. They will thus have to establish a risk-weighted capital ratio requirement equaling a 1 per cent common equity surcharge. OSFI also reserves the right to periodically revise this capital surcharge in light of domestic and international developments.

Thus, as of January 1, 2016, the designated banks will be required to meet a risk-weighted all-in Pillar 1 target common equity Tier 1 of 8% compared to a 7% requirement for smaller institutions.

In its Advisory, OSFI clarifies how such additional loss absorbency, which is required from designated banks, matches well with the capital targets established by the OSFI 2013 *Capital Adequacy Requirements* Guideline and the *Internal Capital Adequacy Assessment Process* Guideline. The OSFI Advisory also discusses the supervisory and disclosure implications for banks designated systematically important for Canada.

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